

What The Pandemic Gives RIAs

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While the pandemic and recession play out, RIAs should already have some key takeaways to consider.

1. Tax loss harvesting & rebalancing is for computers, not humans



Consider those wild days of March in which we saw some record-setting declines. Automated trading programs were able to harvest losses multiple times a day, instantaneously calculating that an additional trade was economically more valuable even after violating the wash sale established in place just an hour earlier. Humans can't compete with this, nor should they. They have far better, more valuable uses of their time, specifically, with clients.

A closely related takeaway here is rebalancing. With the S&P down 33% from its February high, a 60/40 portfolio was only 50% stocks by mid-March. A rules-based rebalancing program forces the "buy low, sell high" mantra. If you can't rebalance any/all of your clients in response to markets volatility (a.k.a. opportunity), your investment process has some opportunities for improvement.

This doesn't mean you need to turn over your trading to a robo advisor. But as an example, Envestnet Tamarac's software actually has "tax loss harvest & rebalance" trade setting, allowing those advisors to click a button and generate hundreds of trades that return their clients' portfolios back to their target allocation by buying low, selling high, and harvesting valuable tax benefits along the way. Hard to argue with that!

2. Location doesn't matter

Speaking of technology, this pandemic has made it official: webinars and video conferencing are basic offerings that are expected by your clients and prospects.

At its core, the financial advisory business is a relationship business, and it traditionally grew via the personal networks of the individual advisor. That resulted in firms that were highly localized. But that was then, this is now. Many advisors already utilized video conferencing (and I'd add a clear correlation between advisor age and video conferencing adoption). But this pandemic has forced everyone to embrace video conferencing. And it works, which begs the question: Does location matter?

You likely already have out of state clients. Is your relationship with those clients any less simply because you meet with them via phone or video conference? The answer is probably "no" because we all know, including those clients, that you provide value as a trusted partner that manages their financial

journey. And that has nothing to do with a fancy office or conference room (which brings us to the cost/benefit argument, but I'll assume that benefit is an obvious one.)

So, as a thought exercise, ask yourself: if you were starting from scratch today, how would you build your firm: lease a fancy office, or deploy a virtual solution? And if you chose the virtual path, wouldn't it follow that an office in the future supports the virtual solution, not the other way around? Welcome to wealth management 2020!

3. The real value lies beyond the portfolio

Through it all, the best advisors are the ones that focus on what matters most. Not economic analysis and forecasts. Not market data and predictions. (And definitely not medical insights and epidemiology!) It all comes down to the client's most common and most pressing question, "what does this mean to me?"

The maximum value an advisor can deliver to any client starts with identifying the biggest gap. I've had clients who gained the biggest value from an insurance review. Others felt the biggest impact was in getting organized across all their finances. Sometimes the client knows where the biggest gap lies, and other times the advisor uncovers a risk the client wasn't even aware of.

Whatever the issue, that's where we shine. At our core, we are problem solvers, and few advisors disagree with me on this, so I'll cut to the chase: engage your clients, find that pain point, and attack. The return on that investment is real, and it likely has little to do with the portfolio.

Conclusion

So, stop doing what software can do better.

Don't let distancing get in the way of your relationships.

And focus your work on what matters most for each client.

Onward and upward!



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